

GRAPHITE ONE RESOURCES INC.

Condensed Interim Consolidated Financial Statements

For the three months ended December 31, 2014

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102, Part 4, subsection 4.3(3) (a), we report that the accompanying unaudited consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's external auditor has not performed a review of these consolidated interim financial statements.

GRAPHITE ONE RESOURCES INC.
Consolidated Statements of Financial Position
(unaudited)
(Expressed in Canadian dollars)

As at		December 31, 2014	September 30, 2014
ASSETS	Note		
Current assets			
Cash		\$ 1,615,348	\$ 2,954,924
Cash in trust	5	197,693	766,067
Prepayments and deposits		175,673	266,248
Accounts receivable	6	50,671	48,027
Total current assets		2,039,385	4,035,266
Non-current assets			
Equipment	7	65,635	94,514
Exploration and evaluation properties	8	8,767,338	7,387,334
Total non-current assets		8,832,973	7,481,848
Total assets		\$ 10,872,358	\$ 11,517,114
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other accounts payable	10	\$ 470,724	\$ 593,368
Total liabilities		470,724	593,368
Equity			
Share capital	11	22,198,702	22,217,062
Share option reserve	11	4,396,701	3,861,029
Deficit		(16,193,769)	(15,154,345)
Total equity		10,401,634	10,923,746
Total equity and liabilities		\$ 10,872,358	\$ 11,517,114
Going concern	2		
Subsequent events	15		

Approved by the Board of Directors:

"Anthony Huston"
Director

"Douglas Smith"
Director

GRAPHITE ONE RESOURCES INC.
Consolidated Statements of Loss and Comprehensive Loss
(unaudited)
(Expressed in Canadian dollars)

For the three month period ended December 31		<u>2014</u>	<u>2013</u>
Expenses	Note		
Management fees and salaries	12	\$ 165,273	\$ 89,607
Marketing and investor relations		236,427	184,040
Office and administration		47,969	49,337
Share-based payments	11	535,672	123,133
Professional fees		45,569	12,763
		<u>1,030,910</u>	<u>458,880</u>
Other income (expenses)			
Foreign exchange gain (loss)		(14,321)	(2,170)
Interest income		5,807	2,488
		<u>(8,514)</u>	<u>318</u>
Net loss and comprehensive loss for the period		<u>\$ (1,039,424)</u>	<u>\$ (458,562)</u>
Basic and diluted loss per common share		\$ (0.02)	\$ -
Weighted average number of common shares outstanding		166,849,175	117,674,684

The accompanying notes are an integral part of these consolidated financial statements

GRAPHITE ONE RESOURCES INC.
Consolidated Statements of Cash Flows
(unaudited)
(Expressed in Canadian dollars)

For the three month period ended December 31	2014	2013
CASH DERIVED FROM (USED IN)		
OPERATING ACTIVITIES		
Loss for the period	\$ (1,039,424)	\$ (458,562)
Items not involving cash:		
Share-based payments	535,672	123,133
Changes in non-cash working capital items		
Accounts receivable	(2,644)	6,340
Prepayments and deposits	90,575	(11,804)
Trade and other accounts payable	(117,081)	(365,970)
	<u>(532,902)</u>	<u>(706,863)</u>
FINANCING ACTIVITIES		
Issuance of shares	-	-
Share issuance costs	(18,360)	250
Increase in cash in trust	671,241	-
Changes in non-cash working capital items		
Trade and other accounts payable	41,268	-
	<u>694,149</u>	<u>250</u>
INVESTING ACTIVITIES		
Purchase of equipment		
Acquisition of exploration and evaluation properties	-	(606)
Exploration of exploration and evaluation properties	(1,351,125)	(421,515)
Increase in cash in trust	(102,867)	-
Changes in non-cash working capital items		
Trade and other accounts payable	(46,831)	-
	<u>(1,500,823)</u>	<u>(422,121)</u>
(Decrease) increase in cash	(1,339,576)	(1,128,734)
Cash at beginning of period	2,954,924	1,512,856
Cash at end of period	\$ 1,615,348	\$ 384,122
Supplemental cash flow information:		
Non-cash transactions eliminated from the consolidated statements of cash flows:		
Depreciation capitalized to exploration and evaluation properties	\$ 28,879	\$ 26,907
	<u>\$ 28,879</u>	<u>\$ 26,907</u>

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The accompanying notes are an integral part of these consolidated financial statements

GRAPHITE ONE RESOURCES INC.
Consolidated Statements of Changes in Equity
(unaudited)
(Expressed in Canadian dollars)

	<u>Common Shares</u>		<u>Share</u>	<u>Deficit</u>	<u>Total</u>
	<u>Number</u>	<u>Amount</u>	<u>Option</u>		
			<u>Reserve</u>		<u>Equity</u>
October 1, 2013	117,674,684	16,458,376	3,464,470	(13,108,939)	6,813,907
Cost of share issuance	-	250	-	-	250
Share-based payments	-	-	123,133	-	123,133
Net loss for the period	-	-	-	(458,562)	(458,562)
December 31, 2013	117,674,684	16,458,626	3,587,603	(13,567,501)	6,478,728
October 1, 2014	166,875,949	22,217,062	3,861,029	(15,154,345)	10,923,746
Cost of share issuance	-	(18,360)	-	-	(18,360)
Share-based payments	-	-	535,672	-	535,672
Net loss for the period	-	-	-	(1,039,424)	(1,039,424)
December 31, 2014	166,875,949	22,198,702	4,396,701	(16,193,769)	10,401,634

The accompanying notes are an integral part of these consolidated financial statements

GRAPHITE ONE RESOURCES INC.
Notes to the Consolidated Financial Statements
December 31, 2014
(unaudited)
(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS

Cedar Mountain Exploration Inc. ("Cedar Mountain") was incorporated in Alberta and commenced operations on March 16, 2006. On October 18, 2007, Cedar Mountain closed its initial public offering and on October 29, 2007 began trading on the TSX-Venture Exchange ("TSX-V") under the symbol CED. Cedar Mountain changed its name to Graphite One Resources Inc. ("Graphite One" or the "Company") on March 23, 2012, and adopted the symbol GPH on the TSX-V effective March 27, 2012. On June 11, 2012 the Company began trading in the over the counter market in the United States on the OTCQX under the symbol GPHOF. Graphite One is the parent company of its consolidated group. In September 2014, the Company moved its corporate jurisdiction from Alberta to British Columbia and in December 2014, the Company's head office was relocated to 510 - 700 West Pender Street, Vancouver, British Columbia, V6C 1G8.

Graphite One is in the business of acquiring and exploring exploration and evaluation properties. The Company has not yet determined whether its properties contain mineral reserves that are economically recoverable and the Company is presently carrying out, or is planning to carry out active exploration efforts on all of its exploration and evaluation properties. The recoverability of the amounts shown for exploration and evaluation properties is dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to complete the development, and ultimately upon future profitable production or proceeds from disposition of the mineral properties.

2. GOING CONCERN

These unaudited condensed interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period.

The Company's ability to continue to meet its obligations and carry out its planned exploration activities is uncertain and dependent upon the continued financial support of its shareholders and on securing additional financing. There is, however, no assurance that any such initiatives will be sufficient and, as a result, there is significant doubt regarding the going concern assumption and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern. These unaudited condensed interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations for the foreseeable future. These adjustments could be material.

GRAPHITE ONE RESOURCES INC.
Notes to the Consolidated Financial Statements
December 31, 2014
(unaudited)
(Expressed in Canadian dollars)

3. BASIS OF PRESENTATION

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) that the Company expects to be applicable for its annual financial statements for the year ending September 30, 2015. The accounting policies applied in the preparation of these financial statements are consistent with those applied and disclosed in the Company’s consolidated financial statements for the year ended September 30, 2014.

The unaudited condensed interim consolidated financial statements have been authorized for issue by the Board of Directors of the Company on February 27, 2015.

3.1 Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, “Interim Financial Reporting” using accounting principles consistent with IFRS as published by the IASB and the International Financial Reporting Interpretations Committee (“IFRIC”). These unaudited condensed interim consolidated financial statements do not include all disclosure required by IFRS for annual financial statements and accordingly should be read in conjunction with the Company’s audited annual financial statements for the year ended September 30, 2014.

3.2 Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis. The statements are presented in Canadian dollars unless otherwise noted.

3.3 Significant judgments, estimates and assumptions

The preparation of the Company’s unaudited condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the unaudited condensed interim consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

Judgments

Determination of functional currency: The determination of functional currency for each company in the group requires an analysis of various indicators which IFRS splits between primary and additional indicators. The primary factors include analyzing (a) the currency that mainly influences sales prices for goods and services, and (b) the currency of the country whose competitive forces and regulations mainly determine the sales price of its goods or services. Management review concluded that the primary factors were either not applicable or were a mix of currencies for the companies within the group.

GRAPHITE ONE RESOURCES INC.
Notes to the Consolidated Financial Statements
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3. BASIS OF PRESENTATION (cont`d...)

Management further reviewed the additional factors for consideration under IFRS, which include examining (a) the currency of the financing activities, (b) the currency in which the receipts from operating activities are usually retained, (c) whether the activities of foreign operations are carried out as an extension of the Company or operate with a large degree of autonomy, (d) whether the transactions between the entities is a high or low proportion of the foreign operation's activities, (e) whether cash flows from activities of a foreign operation directly affect the cash flows of the Company and (f) whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations. Management review and consideration of the additional factors lead to the determination that the functional currency for Graphite One Resources Inc. and its subsidiary is the Canadian dollar.

Exploration and evaluation properties: The Company is required to make significant judgments regarding the capitalization of exploration and evaluation properties' expenditures. The Company is also required to make significant judgments on the ongoing feasibility of mineral exploration, and whether there are indicators that the right to explore the specific area has or will expire, that further exploration and evaluation plans have changed, or whether development of a specific area is unlikely to recover existing exploration and evaluation property costs. If any of these indicators are present, management would need to assess whether the exploration and evaluation properties should be impaired.

Estimates and assumptions:

Depreciation: Mobile equipment, sample preparation laboratory and analytical equipment are depreciated using the straight line method based on rates and residual values that approximate the estimated useful life of the equipment. Significant judgment is involved in the determination of useful life and residual values for the computation of depreciation, depletion and amortization and no assurance can be given that actual useful lives and residual values will not differ significantly from current assumptions.

Impairment of equipment: The carrying value of equipment is reviewed each reporting period to determine whether there is any indication of impairment. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired and an impairment loss is recognized in profit or loss. The assessment of fair values require the use of estimates and assumptions for recoverable production, long-term commodity prices, discount rates, foreign exchange rates, future capital requirements and operating performance. Changes in any of the assumptions or estimates used in determining the fair value of equipment or other assets could impact the impairment analysis.

Deferred taxes: The Company recognizes the deferred tax benefit related to deferred income and resource tax assets to the extent recovery is probable. Assessing the recoverability of deferred tax assets requires management to make significant estimates of future taxable profit. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions from deferred income and resource tax assets.

GRAPHITE ONE RESOURCES INC.
Notes to the Consolidated Financial Statements
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3. BASIS OF PRESENTATION (cont`d...)

The Company recognizes deferred tax liabilities when there are taxable temporary differences that will reverse and result in a future outflow of funds to a taxation authority. The Company records a provision for the amount that is expected to be settled, which requires the application of judgment as to the ultimate outcome. Deferred tax liabilities could be impacted by changes in the Company's estimate of the likelihood of a future outflow, the expected settlement amount, and future changes in tax laws.

Share-based payments: Share-based payments are determined using the Black-Scholes Option Pricing Model based on estimated fair values of all share-based awards at the date of grant and is expensed to the statement of loss and comprehensive loss over each award's vesting period. The Black-Scholes Option Pricing Model utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

4. SIGNIFICANT ACCOUNTING POLICIES

Refer to the Company's annual audited consolidated financial statements for the year ended September 30, 2014 and 2013 for a summary of significant accounting policies.

4.1 Changes in Accounting Standards

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its unaudited condensed interim consolidated financial statements.

Accounting Standards Issued and Effective for annual periods beginning on or after January 1, 2015

IFRS 9 - Financial Instruments replaces the current standard IAS 39 Financial Instruments: Recognition and Measurement, replacing the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value.

5. CASH IN TRUST

The Company has \$197,693 (September 30, 2014 - \$766,067) Cash in trust. The balance at December 31, 2014 and \$94,826 of the balance at September 30, 2014 relates to a deposit held in an escrow account as required by a drilling contract entered into in September 2014. The balance at September 30, 2014 of \$671,241 relates to the share issuance in September 2014 and was held in a trust account at the Company's legal counsel. The Cash in trust related to the share issuance was released from escrow in October 2014.

6. ACCOUNTS RECEIVABLE

The Company has \$50,671 (September 30, 2014 - \$48,027) receivable from the Government of Canada due to statutory credits and refunds and has classified these receivables as non-financial assets.

GRAPHITE ONE RESOURCES INC.
Notes to the Consolidated Financial Statements
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7. EQUIPMENT

	Analytical Equipment	Mobile Equipment	Sample Preparation Lab	Total Equipment
Cost				
Balance, September 30, 2013	\$ 61,414	\$ 117,399	\$ 193,321	\$ 372,134
Additions	-	-	-	-
Disposals	-	-	-	-
Balance, September 30, 2014	\$ 61,414	\$ 117,399	\$ 193,321	\$ 372,134
Additions	-	-	-	-
Disposals	-	-	-	-
Balance, December 31, 2014	\$ 61,414	\$ 117,399	\$ 193,321	\$ 372,134
Accumulated depreciation				
Balance, September 30, 2013	39,919	41,940	85,099	166,958
Depreciation for the year	12,283	25,558	72,821	110,662
Disposals	-	-	-	-
Balance, September 30, 2014	\$ 52,202	\$ 67,498	\$ 157,920	\$ 277,620
Depreciation for the period	3,071	6,704	19,104	28,879
Disposals	-	-	-	-
Balance, December 31, 2014	\$ 55,273	\$ 74,202	\$ 177,024	\$ 306,499
Net Book Value				
September 30, 2013	\$ 21,495	\$ 75,459	\$ 108,222	\$ 205,176
September 30, 2014	\$ 9,212	\$ 49,901	\$ 35,401	\$ 94,514
December 31, 2014	\$ 6,141	\$ 43,197	\$ 16,297	\$ 65,635

GRAPHITE ONE RESOURCES INC.
Notes to the Consolidated Financial Statements
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8. EXPLORATION AND EVALUATION PROPERTIES

The following table summarizes the capitalized costs associated with the Company's exploration and evaluation properties:

	Graphite Creek
Balance, September 30, 2013	\$ 5,513,217
Acquisition	333,261
Analysis	44,132
Geological consulting	351,518
Fieldwork	1,145,206
Balance, September 30, 2014	\$ 7,387,334
Acquisition	-
Analysis	-
Geological consulting	217,593
Fieldwork	1,162,411
Balance, December 31, 2014	\$ 8,767,338
Summary	
Acquisition	\$ 598,444
Exploration	6,788,890
Balance, September 30, 2014	\$ 7,387,334
Acquisition	\$ 598,444
Exploration	8,168,894
Balance, December 31, 2014	\$ 8,767,338

Graphite Creek Property Exploration and Evaluation

The Company's land position is located on the Seward Peninsula of Alaska about 65 kilometers north of the deep sea port at Nome and consists of 129 claims totaling 16,801 acres (6,799 hectares) (the "Graphite Creek Property"). The Graphite Creek Property is comprised of:

1. Twenty-four Federal mining claims (the "GC Option Property");
 2. Twenty-eight state mining claims (the "GC Purchased Property"); and,
 3. Seventy-seven staked state mining claims around the GC Option Property (the "GC Staked Property").
- The Graphite Creek Property is situated about 18km from a seasonal road and 4km from tidewater.

On January 17, 2012, the Company announced that it had entered into an option agreement (the "GC Option Agreement") with an arm's length party (the "Vendor") to earn a 100% interest in the GC Option Property. The GC Option Property is an early stage exploration property which the Company assessed is of high prospectivity for large-flake, high grade graphite.

8. EXPLORATION AND EVALUATION PROPERTIES (cont`d...)

To complete the GC Option Agreement, the Company was obligated to incur exploration expenditures on the GC Option Property totaling United States dollars ("USD") 1,525,000 over three years, and make aggregate cash payments to the Vendor totaling USD 425,000, including: USD 25,000 upon entering into the GC Creek Option Agreement; USD 50,000 due March 1, 2012; USD 100,000 due March 1, 2013; and, USD 250,000 on March 1, 2014. On March 3, 2014, the Company announced that it had satisfied all of the obligations under the GC Option Agreement and earned the right to enter into a lease agreement. When completed, the Company's interest in the GC Option Property will be governed by an initial 20 year lease with provisions for renewal.

On January 24, 2012, the Company purchased from a private individual (the "Seller") the GC Purchased Property for \$20,000 and a 2% production royalty on future production from the GC Purchased Property. The Company had the right to purchase the production royalty for \$1 million until January 24, 2015 (the "Royalty Purchase Option"). The Company and the Seller entered into an extension agreement effective January 24, 2015 (the "Extension Agreement") whereby the Royalty Purchase Option may be exercised at any time on or before the earlier of (i) January 24, 2017, or (ii) the date that is six (6) months after the release by the Company of a feasibility study on the Graphite Creek Property. In connection with the Extension Agreement, the Company has issued to the Seller, 769,231 common shares of the Company at an issue price of \$0.13 per share.

During 2012, the Company staked and acquired the GC Staked Property.

2012 Exploration Program

In 2012, the Company completed an airborne geophysical survey and a \$4.5 million exploration program on the Graphite Creek Property. The survey totalled 1,523.5 line-kilometres and was flown at 50 metre spaced lines. The exploration program consisted of drilling, prospecting, geological mapping and sampling along the conductors delineated from the airborne survey and previously defined graphite-bearing schist. The drill program included 18 drillholes totaling 4,249 m.

Maiden Resource Estimate 2013

In January 2013, Graphite One announced the National Instrument (NI) 43-101 Technical Report for its maiden inferred resource at the Graphite Creek Property. The resource estimate was based on the results of 2012 exploration program and yielded an inferred resource of 107.2 million tonnes at 5.78% graphite using a 3.0% Cg cut-off.

Metallurgical Test Work

In 2011, Graphite One collected four samples of the garnet-bearing schist that yielded 9.1 to 21.6% carbon. Screening analyses of 2011 samples were conducted. An additional five samples were taken for flake size distribution during the 2012 exploration campaign and results are pending. During 2012, Graphite One tested 4 samples from drill core for flake size analysis. Based on the 2011 and 2012 tests, the Graphite Creek Property is known to be a flake graphite deposit whereby the majority of the flake is considered to be large flake.

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Notes to the Consolidated Financial Statements
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8. EXPLORATION AND EVALUATION PROPERTIES (cont`d...)

In April 2013, the Company announced that a first pass beneficiation test of Graphite Creek samples demonstrated a leaching process capable of producing a high purity of 99.2% Cg from a rough concentrate. Metallurgical test work on Graphite Creek material is ongoing to develop a simple concentration and leaching process to produce an ultra-high purity (99.9% Cg) graphite product.

2013 Exploration Program and 2014 Resource Update

The 2013 exploration program conducted at the Graphite Creek Property completed ten diamond drillholes totaling 1,023 meters. In January 2014, the Company announced a 74% increase in the existing inferred resource estimate to 186.9 million tonnes of 5.5% Cg at a 3% Cg Cut-off.

2014 Exploration Program

Between September and November 2014, the 2014 exploration program completed twenty-two diamond drill holes amounting to 2,313.9 meters. The results for twenty of the resource estimation drill holes were announced in a news release on February 18, 2015 and will be used to prepare a revised resource estimate that is expected to be completed in Q1 2015.

In addition to the twenty resource estimation drill holes, two drill holes were completed into separate areas of the deposit to provide core samples for metallurgical test work on the two principle near-surface zones of mineralization. A metallurgical program was initiated in November 2014 to evaluate the processing parameters of representative samples of the two upper zones of mineralization seen in the drilling. A completed report is expected by the end of Q1 2015 and will be incorporated into the inaugural Preliminary Economic Assessment ("PEA"). Completion of the PEA is expected in Q2 2015.

9. GEOGRAPHIC SEGMENTS

The Company has one operating segment, mineral exploration, and all exploration and evaluation properties and equipment of the Company are located in the State of Alaska in the United States of America described above.

10. TRADE AND OTHER ACCOUNTS PAYABLE

As at	December 31, 2014	September 30, 2014
Financial Liabilities		
Trade payables	\$ 448,724	\$ 439,721
Accrued liabilities	22,000	153,647
	\$ 470,724	\$ 593,368

GRAPHITE ONE RESOURCES INC.
Notes to the Consolidated Financial Statements
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(unaudited)
(Expressed in Canadian dollars)

11. SHARE CAPITAL

11.1 Authorized

Unlimited number of common shares with no par value.

11.2 Shares Issued

There were no share transactions during the three months ended December 31, 2014 or the three months ended December 31, 2013.

The following share transactions occurred during the year ended September 30, 2014:

On August 26, 2014, the Company completed a private placement for total gross proceeds of \$2,027,890. Pursuant to this private placement, the Company issued a total of 15,599,160 units (the "Units") at a price of \$0.13 per Unit. Each Unit consists of one common share and one non-transferable common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to purchase one additional common share of the Company at a purchase price of \$0.20 per share during the first two years from the date of issuance and at a price of \$0.25 per share during years three and four from the date of issuance. The Company paid finders' fees in the aggregate amount of \$120,887 and issued 929,902 non-transferable broker warrants, each such warrant entitling the holder to acquire one additional common share of the Company at the same price as the Warrants described above.

On September 30, 2014, the Company completed a private placement for total gross proceeds of \$2,949,300. Pursuant to this private placement, the Company issued a total of 22,686,925 units (the "Units") at a price of \$0.13 per Unit. Each Unit consists of one common share and one non-transferable common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to purchase one additional common share of the Company at a purchase price of \$0.20 per share during the first two years from the date of issuance and at a price of \$0.25 per share during years three and four from the date of issuance. The Company paid finders' fees in the aggregate amount of \$166,166 and issued 1,290,200 non-transferable broker warrants, each such warrant entitling the holder to acquire one additional common share of the Company at the same price as the Warrants described above.

During the year ended September 30, 2014, the Company issued 10,720,000 common shares resulting from the exercise of 10,720,000 share purchase warrants for total proceeds of \$1,340,000. In addition, the Company issued 195,180 broker warrants for proceeds of \$19,518.

GRAPHITE ONE RESOURCES INC.
Notes to the Consolidated Financial Statements
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11. SHARE CAPITAL (cont`d...)

11.3 Warrants

The following table summarizes activity related to warrants:

	Warrants	Weighted Average Exercise Price
Balance, September 30, 2013	47,960,785	\$ 0.21
Issued	38,286,085	\$ 0.20
Exercised	(10,720,000)	0.13
Expired/cancelled	(16,175,000)	0.35
Balance, September 30, 2014	59,351,870	\$ 0.18
Issued	-	\$ -
Exercised	-	-
Expired/cancelled	-	-
Balance, December 31, 2014	59,351,870	\$ 0.18

As at December 31, 2014			As at September 30, 2014		
Number of warrants outstanding #	Weighted average exercise price \$	Weighted average remaining contractual life years	Number of warrants outstanding #	Weighted average exercise price \$	Weighted average remaining contractual life years
4,285,785	0.20	3.1	4,285,785	0.20	3.4
6,004,500	0.13	1.7	6,004,500	0.13	1.9
10,775,500	0.13	1.7	10,775,500	0.13	2.0
15,599,160	0.20	3.7	15,599,160	0.20	3.9
22,686,925	0.20	3.7	22,686,925	0.20	4.0
59,351,870	0.18	3.1	59,351,870	0.18	3.4

11.4 Share based compensation

Pursuant to a stock option plan (the "Plan") for directors, officers, employees and consultants, the Company may reserve a maximum of 10% of the issued and outstanding listed common shares, and the exercise price to be determined on the date of issuance of the options. The options are non-transferable and will expire, if not exercised, 90 days following the date the optionee ceases to be a director, officer, employee or consultant of the Company for reasons other than death, one year after the death of an optionee or on the fifth anniversary of the date the option was granted. Options granted under the plan may not exceed five years and vest at terms to be determined by the board of directors at the time of the grant, but shall not be less than the price determined by policy or policies of the stock exchange(s) on which the Company's common shares are then listed, or \$0.10 per share. Occasionally, the Company issues stock options to agents which do not fall under the plan.

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11. SHARE CAPITAL (cont`d...)

During the three months December 31, 2014, 5,350,000 options (2013 – 900,000) were granted to directors, officers and consultants of the Company. Each option has an exercise price of \$0.13, expiring 5 years from the date of grant. The options granted during the three months ended December 31, 2014 vested immediately. Of the 900,000 options granted in the three months ended December 31, 2013, 300,000 options vested immediately with the remaining vesting over a one year period. With respect to these options, \$535,672 in share based payments was recorded during the three months ended December 31, 2014.

The fair value of the share options granted in the three month period ended December 31, 2014 and the year ended September 30, 2014 was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Three months ended December 31, 2014	Year ended September 30, 2014
Strike price	\$0.13	\$0.165 - \$0.17
Market price	\$0.12	\$0.17
Risk free interest rate	1.52%	1.73% - 1.89%
Expected option life	5 years	5 years
Expected stock price volatility	116%	104% - 130%
Dividend payments during life of option	Nil	Nil
Expected forfeiture rate	Nil	Nil
Fair value per option	\$0.10	\$0.13 - \$0.15

The expected life is based on current expectations. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends.

Option pricing models require the input of highly speculative assumptions. Changes in these assumptions can materially affect the fair value estimate and, therefore, existing models do not necessarily provide a reliable single measure of the fair value of the Company's share options.

The following table summarizes activity related to stock options:

Balance, September 30, 2013	10,225,000	\$	0.23
Issued	900,000	\$	0.17
Expired/cancelled	(450,000)	\$	0.24
Balance, September 30, 2014	10,675,000	\$	0.22
Issued	5,350,000	\$	0.13
Expired/cancelled	(1,950,000)	\$	0.22
Balance, December 31, 2014	14,075,000	\$	0.19

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11. SHARE CAPITAL (cont`d...)

As at December 31, 2014				As at September 30, 2014			
Number of options outstanding #	Number of vested options #	Weighted average exercise price \$	Weighted average remaining contractual life years	Number of options outstanding #	Number of vested options #	Weighted average exercise price \$	Weighted average remaining contractual life years
-	-	-	-	-	-	-	-
750,000	750,000	0.150	0.5	950,000	950,000	0.150	0.8
200,000	200,000	0.300	1.0	200,000	200,000	0.300	1.2
300,000	300,000	0.280	1.2	300,000	300,000	0.280	1.4
900,000	900,000	0.270	1.3	1,300,000	1,300,000	0.270	1.6
2,475,000	2,475,000	0.280	2.2	2,975,000	2,975,000	0.280	2.4
175,000	175,000	0.280	2.5	175,000	175,000	0.280	2.7
925,000	925,000	0.200	2.8	1,275,000	1,275,000	0.200	3.1
1,500,000	1,500,000	0.165	3.7	2,000,000	2,000,000	0.165	4.0
600,000	600,000	0.175	3.7	600,000	600,000	0.175	4.0
600,000	600,000	0.175	3.8	600,000	450,000	0.175	4.0
300,000	300,000	0.170	3.9	300,000	300,000	0.170	4.2
5,350,000	5,350,000	0.130	4.9	-	-	-	-
14,075,000	14,075,000	0.187	3.4	10,675,000	10,525,000	0.222	2.7

11.5 Broker Warrants

The following table summarizes activity related to Broker Warrants:

Balance, September 30, 2013	5,054,000	\$	0.16
Issued	2,220,102	\$	0.20
Exercised	(195,180)		0.10
Expired/cancelled	(3,054,000)		0.20
Balance, September 30, 2014	4,024,922	\$	0.16
Issued	-	\$	-
Exercised	-		-
Expired/cancelled	-		-
Balance, December 31, 2014	4,024,922	\$	0.16

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11. SHARE CAPITAL (cont'd...)

Broker warrants outstanding:

As at December 31, 2014

As at September 30, 2014

Number of warrants outstanding #	Weighted average exercise price \$	Weighted average remaining contractual life years	Number of warrants outstanding #	Weighted average exercise price \$	Weighted average remaining contractual life years
-	-	-	3,054,000	0.200	0.4
395,180	0.100	0.2	590,360	0.100	1.4
1,409,640	0.100	0.4	1,409,640	0.100	1.5
929,902	0.200	3.7	-	-	-
1,290,200	0.200	3.8	-	-	-
4,024,922	0.155	2.2	5,054,000	0.160	0.8

All broker warrants at December 31, 2014 and September 30, 2014 were fully vested.

The fair value of the Broker Warrants granted in the year ended September 30, 2014 of \$198,729 was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Three months ended December 31, 2014	Year ended September 30, 2014
Strike price	n/a	\$0.20
Market price	n/a	\$0.135 - \$0.14
Risk free interest rate	n/a	1.54% - 1.63%
Expected option life	n/a	4 years
Expected stock price volatility	n/a	97% - 109%
Dividend payments during life of option	n/a	Nil
Expected forfeiture rate	n/a	Nil
Fair value per option	n/a	\$0.09

The expected life is based on current expectations. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends.

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12. RELATED PARTY TRANSACTIONS AND BALANCES

Relationships	Nature of the relationship
Huston Financial Corp. ("Huston")	Huston Financial Corp. is a private company controlled by an officer and director of the Company. Huston provides management services and IR Consulting to the Company.
DH Smith Resource Advisory Corp. ("Smith")	Smith is a private company controlled by a director of the Company. Smith provides management services to the Company.
Ahlgren Consulting Inc. ("Ahlgren")	Ahlgren is a private company controlled by an officer of the Company. Ahlgren provides management services to the Company.
878160 Alberta Ltd. ("878160")	878160 is a private company controlled by a former officer and director of the Company. 878160 provides geological services to the Company.
CC Management Inc. ("CC")	CC is a private company controlled by a former officer and director of the Company. CC provided management services to the Company.

12.1 Related party transactions

	Management Services	Investor Relations Consulting	Geological Services
For the three months ended December 31, 2014			
Huston Financial Corp.	\$ 53,124	\$ 28,125	\$ -
DH Smith Resource Advisory Corp.	49,998	-	-
878160 Alberta Ltd.	-	-	25,000
Ahlgren Consulting Inc.	8,000	-	-
For the three months ended December 31, 2013			
CC Management Inc.	\$ 37,500	\$ -	\$ -
878160 Alberta Ltd.	7,500	-	30,000
Huston Financial Corp.	9,375	28,125	-

The above transactions relate to consulting fees incurred by the Company. Management services expenses are included in Management fees and salaries and investor relations consulting expenses are included in Marketing and investor relations in the consolidated statements of financial position. Geological services are capitalized to Exploration and evaluation properties in the consolidated statements of financial position.

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12. RELATED PARTY TRANSACTIONS AND BALANCES (cont`d...)

The Company pays a company with common directors for monthly office rent and general operating costs for an office in one of the Company's locations. The office rental and operating costs are shared between several companies, and the Company only pays its pro rata share of the total cost of the office rental and related costs. The Company's share of office rent and basic operating costs was \$nil for the three months ended December 31, 2014 (2013 - \$24,221).

Amounts owing to related parties are non-interest bearing, unsecured and due on demand. The transactions were in the normal course of operations. At December 31, 2014, the Company owed \$35,387 (2013 - nil) to related parties.

12.2 Key management compensation

Key management are those personnel having the authority and responsibility for planning, directing and controlling the Company and include the Executive Chairman, President & Chief Executive Officer, Directors, Chief Financial Officer, and General Manager Operations.

Three months ended December 31,	2014	2013
Consulting fees	\$ 164,247	\$ 112,500
Salary	74,450	10,797
Benefits	8,211	18,000
Stock-based compensation	390,000	3,900
	\$ 636,908	\$ 145,197

13. MANAGEMENT OF CAPITAL

The Company defines capital that it manages as equity.

The Company's objective when managing capital is to maintain corporate and administrative functions necessary to support the Company's operations and corporate functions; to perform mineral exploration activities on the Company's exploration projects; and to seek out and acquire new projects of merit.

The Company manages its capital structure in a manner that provides sufficient funding for operational and capital expenditure activities. Funds are secured, when necessary, through debt funding or equity capital raised by means of private placements. There can be no assurances that the Company will be able to obtain debt or equity capital in the case of working capital deficits.

The Company does not pay dividends and has no long-term debt or bank credit facility. The Company is not subject to any externally imposed capital requirements. There have not been any changes to the Company's capital management policy during the period.

14. RISK MANAGEMENT

14.1 Financial Risk Management

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below.

a. Credit risk

Credit risk is the risk of potential loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash.

The Company has assessed its exposure to credit risk on its cash and has determined that such risk is minimal. The majority of the Company's cash is held with reputable financial institutions in Canada.

b. Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. As at December 31, 2014, the Company had working capital of \$1,568,661, and it does not have any long term monetary liabilities. The Company may seek additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in dilution to the value of such interests. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2014, the Company had cash of \$1,615,348 to settle current liabilities of \$470,724. The Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms.

c. Interest rate risk

Interest rate risk is the risk arising from the effect of changes in prevailing interest rates on the Company's financial instruments.

The Company had \$1,615,348 in cash at December 31, 2014, on which it earns variable rates of interest, and may therefore be subject to a certain amount of risk, though this risk is considered by management to be immaterial.

d. Foreign currency risk

Foreign currency risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will fluctuate because of changes in foreign exchange rates. The Company maintains the majority of its cash reserves in Canadian dollars. A portion of the Company's funds are held in US dollars and are therefore subject to fluctuations in foreign exchange rates.

At December 31, 2014, the Company has certain monetary items denominated in United States dollars. Based on these net exposures, a 10% appreciation or depreciation of the Canadian dollar against the United States dollar would result in an increase or decrease of \$10,800 in the Company's net loss.

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14. RISK MANAGEMENT (cont`d...)

14.2 Fair Values

The carrying values of cash, cash in trust, refundable deposits and other receivables and trade and other accounts payable approximate fair values due to their short-term to maturity nature or the ability to readily convert to cash.

15. SUBSEQUENT EVENTS

In January 2012, the Company's wholly owned subsidiary, Cedar Mountain Exploration (Alaska) Inc. ("Cedar Mountain"), purchased from a certain individual vendor (the "Seller"), 28 mining claims in the State of Alaska. Subsequent to the date of these financial statements, Cedar Mountain and the Company have entered into an extension agreement with the Seller effective January 24, 2015 (the "Extension Agreement") whereby the a royalty buyout option may be exercised at any time on or before the earlier of (i) January 24, 2017, or (ii) the date that is six (6) months after the release by the Company or Cedar Mountain of a feasibility study on the Graphite Creek Property. In connection with the Extension Agreement, the Company has agreed to issue to the Seller, 769,231 common shares of the Company at an issue price of \$0.13 per share.